

Message Text

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ACTION EA-14

INFO OCT-01 ADP-00 SS-15 EB-11 INR-10 L-03 RSR-01 RSC-01

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 4902

C O N F I D E N T I A L SECTION 1 OF 2 TOKYO 8189

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E. O. 11652: GDS

TAGS: PFOR, EGEN, ETRD, JA

SUBJ: NIXON/ TANAKA SUMMIT BACKGROUND PAPER V: TRADE
AND PAYMENTS - ISSUES AND RECOMMENDATIONS

SUMMARY: PRIME MINISTER TANAKA EXPECTED TO LIST ACTIONS
TAKEN BY GOJ SINCE LAST SUMMIT TO IMPROVE TRADE IMBALANCE
AND LIBERALIZE FOREIGN INVESTMENT, AS WELL AS DESCRIBE
JAPANESE SHORT- TERM MEASURES CARRIED OUT UNDER AGREEMENT
AT SUMMIT. TRADE STATISTICS IN RECENT MONTHS SHOW
SHARP DECLINE IN US DEFICIT, ON BASIS OF WHICH EMBASSY
BELIEVES 1973 DEFICIT WILL BE IN NEIGHBORHOOD OF
\$2.5 BILLION COMPARED TO \$4.1 BILLION IN 1972. HOW-
EVER, WHILE YEN REVALUATIONS OF 1971 AND 1973 HAVE
CONTRIBUTED TO IMPROVEMENT, TWO TEMPORARY CYCLI-
CAL FACTORS HAVE PLAYED MORE IMPORTANT ROLE: BOOMING
JAPANESE ECONOMY FACED WITH TIGHT SUPPLIES AND INFLA-
TIONARY PRESSURES AND HIGH RAW MATERIAL PRICES. AS
RESULT, WHILE WELCOMING JAPANESE ACTIONS AND IMPROVEMENT
IN TRADE IMBALANCE, WE SHOULD BALANCE ANY SUCH STATEMENTS
IN COMMUNIQUE WITH RECOGNITION THAT MORE STRUCTURAL
CHANGES, REQUIRING EFFORTS ON BOTH SIDES, WILL BE NECESS-
ARY. END SUMMARY.

1. IT IS VIRTUALLY CERTAIN THAT PRIME MINISTER TANAKA
WILL WANT TO USE OCCASION OF SUMMIT MEETING TO OBTAIN
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PRAISE FOR ACTIONS TAKEN BY GOJ TO IMPROVE US/ JAPAN TRADE
IMBALANCE AND FOR MARKED IMPROVEMENT IN RECENT TRADE
STATISTICS. HE WILL WANT SUCH FAVORABLE REFERENCES
INCLUDED IN THE COMMUNIQUE, AND HE MAY HOPE, IN PART FOR

DOMESTIC POLITICAL REASONS, TO INCLUDE LANGUAGE THAT WOULD INDICATE THAT BILATERAL TRADE PROBLEMS EITHER SOLVED OR AT LEAST ON ROAD TO RESOLUTION AND THAT ATTENTION SHOULD NOW BE TURNED TO OTHER AREAS.

2. LIST OF GOJ ACTIONS TO IMPROVE TRADE IMBALANCE AND LIBERALIZE FOREIGN INVESTMENT IN JAPAN SINCE THE PRESIDENT'S LAST MEETING WITH TANAKA (AUGUST 31 - SEPTEMBER 1, 1972), WHICH IS ESSENTIALLY SAME AS THAT PRESENTED BY GOJ AT EBERLE- TSURUMI TRADE TALKS MAY 7, IS AS FOLLOWS:
A. IMPORT EXANSION:

(1) TARIFFS: IN NOVEMBER 1972 GOJ REDUCED TARIFFS ON 1,865 ITEMS BY 20 PERCENT. IN APRIL 1973 TARIFFS WERE REDUCED ON AN ADDITIONAL 102 ITEMS.

(2) IMPORT QUOTAS: IN OCTOBER 1972 GOJ APPROVED EXPANSION IN QUOTAS FOR ITEMS UNDER IMPORT QUOTA RESTRICTION OF 30 PERCENT OR TO 7 PERCENT OF DOMESTIC CONSUMPTION. IN APRIL 1973 GOJ ANNOUNCED A FURTHER 30 PERCENT INCREASE IN QUOTAS OR TO 8 PERCENT OF DOMESTIC CONSUMPTION. IMPLEMENTATION OF THESE INCREASES HAS NOT APPLIED TO ALL ITEMS UNDER QUOTA.

(3) COMPUTERS AND INTEGRATED CIRCUITS: IN MARCH 1973 GOJ ANNOUNCED LIBERALIZATION OF IMPORT OF ELECTRONIC DIGITAL CALCULATING MACHINES AND INTEGRATED CIRCUITS WITH LESS THAN 200 ELEMENTS. IN JUNE 1973 GOJ ANNOUNCED THAT IMPORTS OF COMPUTERS AND PERIPHERAL EQUIPMENT WOULD BE LIBERALIZED IN 1975 AND INTEGRATED CIRCUITS IN 1974.

(4) IMPORT FINANCING: GOJ HAS SOUGHT TO FINANCE MORE OF ITS IMPORTS DOMESTICALLY THROUGH A REDUCTION OF ONE PERCENT IN INTEREST RATE FOR SUCH FINANCING TO AVERAGE OF 5.5 PERCENT.

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(5) OTHER MEASURES: COMMODITY TAX ON LARGE AND MEDIUM SIZED AUTOMOBILES HAS BEEN REDUCED TO 20 PERCENT, AND IMPORT DEPOSIT AND AUTOMATIC APPROVAL SYSTEMS ABOLISHED.

B. CONTROL OF EXPORT EXPANSION:

(1) EXPORT CONTROLS: GOJ FOR TIME BEING HAS MAINTAINED EXPORT CONTROLS ON 20 ITEMS WHICH HAD HIGHEST EXPORT GROWTH RATE. DUE TO MARKET CONDITIONS MOST ITEMS HAVE REMAINED UNDER CONTROL LIMITS. CONTROL PERIOD IS SEPT 1972 THROUGH AUG 1973; CONTROLLED ITEMS ACCOUNT FOR 46 PERCENT OF JAPANESE TRADE WITH US.

(2) EXPORT FINANCING: GOJ HAS APPROVED INCREASE OF ONE PERCENT IN JAPAN EXPORT- IMPORT BANK FINANCING FOR EXPORTS TO AVERAGE OF 6.5 PERCENT, I. E. HIGHER RATE THAN FOR IMPORTS.

(3) OTHER MEASURES: GOJ HAS TERMINATED USE OF THE TAX ADVANTAGE OF OVERSEAS MARKET DEVELOPMENT RESERVE FOR LARGE COMPANIES AND HAS GREATLY REDUCED SCOPE OF TARIFF DRAWBACK SYSTEM THAT APPLIES TO IMPORTED MATERIALS USED IN EXPORTED PRODUCTS.

C. LIBERALIZATION OF DIRECT FOREIGN INVESTMENT: EFFECTIVE MAY 1 GOJ GREATLY LIBERALIZED REGULATIONS FOR FOREIGN INVESTMENT IN JAPAN. UNDER NEW PROGRAM FIVE INDUSTRY SECTORS REMAIN NON- LIBERALIZED, 17 SECTORS WILL BE FULLY LIBERALIZED AFTER TRANSITION PERIODS OF VARYING DATES (LATEST IS MID- 1976), AND ALL OTHER SECTORS ARE OPEN TO FULL FOREIGN OWNERSHIP OF NEW OR EXISTING COMPANIES. LAWS ON REGULATED INDUSTRIES, E. G. RADIO AND TELEVISION BROADCASTING, CONTINUE TO APPLY, AND FOREIGN PURCHASE OF EXISTING JAPANESE COMPANIES MUST BE APPROVED BY FIRM' S BOARD OF DIRECTORS.

D. JAPANESE AID POLICY:

GOJ HAS RECEIVED LEGISLATIVE AUTHORITY TO UNTIE GOVERNMENT AID TO LESS DEVELOPED COUNTRIES. PERFORMANCE
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TO DATE HAS BEEN ON CASE BY CASE BASIS, BUT UNTIED LOANS HAVE BEEN MADE TO BURMA, THAILAND AND INDONESIA.

E. EXPANSIONARY MONETARY AND FISCAL POLICY:
GOJ PASSED SUPPLEMENTAL BUDGET IN NOVEMBER 1972 AND JFY 1973 BUDGET IN APRIL 1973, BOTH OF WHICH PROVIDED FOR SHARP INCREASES IN EXPENDITURES. THE EXPANSIONARY MONETARY POLICY WAS TERMINATED WITHIN PAST COUPLE OF MONTHS BECAUSE OF INFLATIONARY PRESSURES.

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INFO OCT-01 ADP-00 SS-15 L-03 INR-10 EB-11 RSR-01 RSC-01

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F. PARITY CHANGES:

IN ADDITION TO PARITY CHANGES RESULTING FROM SMITHSONIAN AGREEMENT, FURTHER REVALUATION TOOK PLACE FEBRUARY 1973 AFTER THE YEN WAS FLOATED. AS RESULT YEN HAS APPRECIATED IN VALUE BY ABOUT 35 PERCENT WITH RESPECT TO THE DOLLAR OVER PAST 18 MONTHS.

3. IN ADDITION TO LISTING OF ABOVE POLICY MEASURES, TANAKA WILL UNDOUBTEDLY ALSO PROVIDE FOLLOWING ACCOUNT OF GOJ'S PERFORMANCE ON SHORT- TERM MEASURES PROMISED AT 1972 SUMMIT:

A. AGRICULTURAL PURCHASES: GOJ ESTIMATED 1972 PURCHASES OF \$2,218 MILLION IN US QTE AGRICULTURAL QTE PRODUCTS (INCLUDING FISH AND FOREST PRODUCTS), INCLUDING \$50 MILLION IN EMERGENCY GRAIN PURCHASES. ACTUAL PURCHASES IN 1972 TOTALLED \$2,740 MILLION.

B. COMMERCIAL AIRCRAFT: GOJ AGREED TO PURCHASE \$320 MILLION WORTH OF COMMERCIAL AIRCRAFT IN 1972-73. CONTRACTS FOR \$290 MILLION WERE SIGNED IN 1972.

C. HELICOPTERS: GOJ AGREED TO PURCHASE \$20 MILLION WORTH OF HELICOPTERS AND FACILITIES. PURCHASES HAVE BEEN MADE.
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D. ENRICHED URANIUM: GOJ AGREED TO PURCHASE \$320 MILLION WORTH OF URANIUM ENRICHMENT SERVICES. CONTRACTS HAVE BEEN SIGNED AND PREPAYMENT WAS MADE IN MARCH 1973. WHICH ACCOUNT FOR ABOUT TWO- THIRDS OF US EXPORTS TO JAPAN. STATISTICS INDICATE THAT DOLLAR VALUE OF US EXPORTS TO JAPAN HAVE RISEN FASTER THAN VOLUME. ACCORDINGLY, IT WOULD APPEAR THAT AT SUCH TIME AS WORLD AND US COMMODITY PRICES DECLINE, VALUE OF US EXPORTS TO JAPAN WOULD BE ADVERSELY AFFECTED.

6. SECOND FACTOR IS BOOMING JAPANESE ECONOMY, WHICH IS PULLYING IN IMPORTS AT HIGH LEVEL. PRESENT IMPROVEMENT IN US TRADE POSITION DUE PRIMARILY TO INCREASED US EXPORTS TO JAPAN AND LESS SO TO DECLINE IN RATE OF GROWTH OF JAPANESE EXPORTS TO US. JAPANESE ECONOMY IS CURRENTLY PLAGUED WITH HIGH INFLATION RATE, AND GOJ

UNDER HEAVY PRESSURE TO TAKE CORRECTIVE ACTION. GOJ HAS MOVED TO MORE RESTRICTIVE MONETARY POLICY AND IS TEMPORARILY WITHHOLDING CERTAIN BUDGET FUNDS AS MEANS OF COOLING ECONOMY. WHILE ECONOMY WILL DOUBTLESS CONTINUE TO GROW AT RAPID RATE, THERE IS LIKELY TO BE SLOWDOWN IN RATE OF GROWTH AROUND END OF YEAR OR EARLY 1974 WHICH COULD HAVE ADVERSE EFFECT ON RATE OF IMPORT GROWTH.

7. RECOMMENDATION: WHILE ACTIONS TAKEN BY GOJ SINCE LAST SUMMIT ARE SUBSTANTIAL AND TRADE RESULTS ENCOURAGING, WE SHOULD BEAR CLEARLY IN MIND IMPORTANCE OF CYCLICAL FACTORS IN CONTRIBUTING TO IMPROVEMENT IN TRADE SITUATION. ACCORDINGLY, WHILE GOJ MAY JUSTIFIABLY CLAIM CREDIT FOR SUCCESS IN IMPROVING TRADE IMBALANCE, WE SHOULD BALANCE ANY STATEMENT IN COMMUNIQUE TO THAT EFFECT BY REFERENCE TO OUR CONCERN THAT CORRECTION IS IN SUBSTANTIAL MEASURE CYCLICAL IN NATURE AND TO NECESSITY FOR FURTHER EFFORTS TO ASSURE LONG- TERM SOLUTION. ON JAPANESE SIDE, RELATIVELY SMALL NUMBER OF FORMAL TRADE BARRIERS REMAIN, OF WHICH AGRICULTURAL QUOTAS ARE MOST IMPORTANT. IN MORE GENERAL SENSE, HOWEVER, WE SHOULD WORK FOR MUCH MORE POSITIVE GOJ POLICY OF IMPORT PROMOTION. AT SAME TIME, OF COURSE, INCREASED EFFORTS IN US EXPORT PROMOTION WILL BE REQUIRED

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TO MAKE FULL USE OF OPPORTUNITIES PRESENTED.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 15 APR 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 29 JUN 1973
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: collinp0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973TOKYO08189
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: n/a
From: TOKYO
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1973/newtext/t19730636/dccbkabo.tel
Line Count: 249
Locator: TEXT ON-LINE
Office: n/a
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a <jms 19990419 STADIS IS NOTED ON DOCUMENT>; STADIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: collinp0
Review Comment: n/a
Review Content Flags:
Review Date: 09 NOV 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09-Nov-2001 by elyme>; APPROVED <26 FEB 2002 by collinp0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> jms 19990419
Subject: NIXON/ TANAKA SUMMIT BACKGROUND PAPER V: TRADE AND PAYMENTS - ISSUES AND RECOMMENDATIONS
TAGS: PFOR, EGEN, ETRD, JA
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005